

VZCZCXRO2827
PP RUEHDBU
DE RUEHKV #1480/01 1031741
ZNY CCCCC ZZH
P 131741Z APR 06
FM AMEMBASSY KIEV
TO RUEHC/SECSTATE WASHDC PRIORITY 8802
INFO RUCNCIS/CIS COLLECTIVE
RUEHZG/NATO EU COLLECTIVE

C O N F I D E N T I A L SECTION 01 OF 03 KIEV 001480

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E.O. 12958: DECL: 04/13/2016
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RS, UP
SUBJECT: UKRAINE: CODEL FRIST MEETING WITH YULIYA TYMOSHENKO

Classified By: Ambassador for reasons 1.4 (b) and (d).

Summary

¶1. (C) In an April 13 meeting with CODEL Frist, former Prime Minister Yuliya Tymoshenko averred that Ukraine's March 26 elections showed the desire of the Ukrainian people for a renewed Orange coalition government. Thanking Senator Frist for encouraging Team Orange reconciliation, Tymoshenko stressed that she sincerely wanted to work again with President Yushchenko; he still viewed her, though, as a "rival, not a partner." Asked about prospects for an Orange coalition, Tymoshenko said she expected to sign a protocol about forming a majority coalition in three-way talks later that day. A key question looking forward, Tymoshenko said, would be whether Yushchenko was prepared to appoint "only highly professional people" to key government posts (i.e., not her bitterest rivals from the Our Ukraine camp). Tymoshenko vigorously defended her record as prime minister, taking credit for the Kryvorizhstal privatization and dismissing her critics as "monsters of the old system." Tymoshenko argued that Ukraine would never be truly independent until it curbed its dependence on Russian energy supplies; the country needed to cut consumption, tap domestic gas reserves, make new deals with Central Asian suppliers, and diversify nuclear fuel sourcing. She blasted the January 4 gas agreement with Russia, calling it a "fundamental surrender" to Moscow that she would "like to rectify." In exchanges with Senators Gregg and Burr, Tymoshenko said that she as prime minister would support granting more licenses to foreign banks, characterized the Ukrainian judicial system as "very weak," and asserted that combating corruption required more than "just lip service." End summary.

Elections

¶2. (C) Senate Majority Leader Bill Frist (R-TN), Senator Judd Gregg (R-NH), Senator Richard Burr (R-NC) and Ambassador, met April 13 with former (and leading candidate to be the next) Prime Minister Yuliya Tymoshenko. Senator Frist congratulated Tymoshenko on Ukraine's recent democratic elections and on her political bloc's strong showing in the parliamentary (Rada) elections. Senator Frist urged Tymoshenko to seek a way to achieve agreement on a Rada majority with her erstwhile Orange Revolution partners -- President Yushchenko's Our Ukraine and the Socialist Party. The Majority Leader said the U.S. supported a revived Orange coalition as the coalition that carried the strongest promise for the kind of political and economic reforms that the U.S. favored.

¶3. (SBU) Tymoshenko accepted Senator Frist's compliment regarding Ukraine's recent democratic elections, stressing that the Ukraine's March 26 parliamentary and local elections

had been the most "free, democratic and transparent" elections in the country's post-independence history. The Ukrainian people, she said, had expressed their desire to see an Orange coalition government. Only an Orange team, she emphasized, would be able to "finish what we started on the Maidan." A non-Orange coalition, Tymoshenko added, would change Ukraine's foreign and domestic policies for the worse.

...Coalition Formation...

14. (C) Thanking Senator Frist for expressing support for Orange rapprochement, and for steadfast American support of democracy in Ukraine, Tymoshenko related that she "sincerely" wanted to work again with President Yushchenko. Their September 2005 falling out had been a "tragedy." However, Tymoshenko said, the Ukrainian people had given them "another chance." Tymoshenko had assured Yushchenko that she would support his re-election bid in 2009 and "not be his competitor." She asserted, though, that Yushchenko still viewed her as a "rival, not a partner" -- a misperception that she hoped to correct. Responding to a question from Ambassador, Tymoshenko said that at three-way coalition talks later in the day she would likely sign a protocol about forming a coalition government. (Note: News reports indicated the protocol would be signed late April 13 by Tymoshenko, Our Ukraine's Bezsmertny, and Socialist leader Moroz).

15. (SBU) In a dig at rivals in Our Ukraine, Tymoshenko said she hoped that Yushchenko would be prepared to accept "only highly professional people" in senior positions in the new government and not the people "who had failed to show such professionalism last time around." She did not want to head a patchwork government that would "fail in six months" and

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provide Yushchenko "with an excuse" to form a new coalition with Yanukovych's Party of Regions. Noting that the CODEL would see Yushchenko later in the morning, Tymoshenko asked Senator Frist to convey her "warmest regards."

...Record as Prime Minister...

16. (SBU) Senator Frist urged Tymoshenko, if she became Prime Minister, to do her best to improve Ukraine's business and investment climate. In response, Tymoshenko stressed that she would do whatever she could. She vigorously defended her record as premier, arguing that her government had annulled "5,000 regulations" that had hindered economic growth and facilitated corruption, reduced taxes on importers, and simplified import procedures. Tymoshenko took credit for putting in motion Ukraine's first transparent, successful privatization of a large state enterprise, the Kryvorizhstal steel works. In a jab at Yushchenko, she quipped that there had been "no others since then." Tymoshenko emphasized that she "understands what it takes" to attract foreign investment. She acknowledged that it was tough for foreign companies to do business in what she called Ukraine's "post-Soviet bureaucratic system built on corruption and criminal clans." Tymoshenko added that she would meet on April 17 with the American Chamber of Commerce in Kiev.

16. (SBU) Senator Frist advised Tymoshenko that the GOU should tread carefully in the area of reprivatization and adhere to market-based economic policies. Tymoshenko replied that her alleged zeal for reprivatization and anti-market policies was overstated. She joked that "only five percent" of what her detractors said should be taken seriously. Charges that she was an economic populist who favored "excessive reprivatization" were "myths" made up by the "monsters of the old system" to curb her political power. Tymoshenko stressed that she had been a businesswoman in the years following Ukraine's independence and knew that price-fixing was bad policy; "any sober person knows that the market should set

prices," she said, adding that only courts -- and not the government -- should resolve property ownership disputes.

...Energy Security...

17. (C) Turning to energy issues, Tymoshenko asserted that Ukraine would "never be truly independent" unless it reduced its dependence on Russian energy supplies. Russia attached "political conditions" to energy agreements that undermined Ukraine's sovereignty, she stressed. Tymoshenko complained that 90 percent of Ukraine's oil refineries were Russian-owned, that 100 percent of Ukraine's nuclear power plant fuel was supplied by Russia, and that, in the wake of the January gas deal, Russia now supplied all of Ukraine's natural gas. All of this, she groused, amounted to "energy terrorism."

18. (C) Tymoshenko said that Ukraine could curb its dependence on Russia, for example, by aggressively using conservation methods to cut consumption, tapping domestic gas reserves, forging new gas supply agreements with Turkmenistan, Uzbekistan and Kazakhstan, and diversifying nuclear fuel supplies (by working with U.S. companies like Westinghouse). Russia would not interfere with the transit of Central Asian gas to Ukraine, she smiled, "because Russian gas transits Ukraine" on the way to markets in Western Europe. Tymoshenko blasted the January 4 gas deal, calling it a "fundamental surrender" to Moscow that she would "like to rectify." All it would take, she asserted, "is the political will" to become energy independent; regrettably, she said, "political elites here" had deliberately opted for dependence on Russia.

...Banks, Corruption and Judicial System...

19. (SBU) Senator Gregg commended Ukraine for its recent successful exercise in democracy and urged Tymoshenko to work with like-minded pro-democracy forces to continue to strengthen Ukraine's democracy. Senator Gregg said Ukraine, like any country, needed a strong banking system, a judicial system based on rule of law, and a tough approach to corruption if it wanted to attract foreign investment on a large scale. In response, Tymoshenko stressed that:

-- She as prime minister would support granting more licenses to foreign banks, though she acknowledged that there would be a powerful protectionist banking lobby in the next Rada;

-- Ukraine's judicial system was "very weak" and badly in need of thorough reform; and,

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-- Combating corruption was a matter of "political will," which needed more than "just lip service" from government leaders.

...And Being a Female Politician in Ukraine

10. (SBU) In response to a question from Secretary of the Senate Emily Reynolds, Tymoshenko commented that it was not easy for women to succeed in the tough world of Ukrainian politics. Tymoshenko noted, for example, that she and many of her top lieutenants had spent time in prison (note: Tymoshenko was incarcerated for 41 days in 2001 in a tax-related investigation before being released without being formally charged). Still, Tymoshenko said, women brought "love and inspiration" to the political process; she hoped to see more "strong women" in politics. She asked Reynolds to convey her best regards to the female members of the U.S. Senate.

11. (U) CODEL Frist did not have an opportunity to clear this cable.

